

Categories of Funds, Types of Funds, Measurement Focus, and Basis of Accounting

Governmental Accounting Standards Board Statement 34 (GASB 34) established a new model for governmental financial reporting. Procedure 202 has been updated to reflect fund classifications and types based on the new model. LEAs that have not yet implemented GASB 34 may, but are not required to, use the new fund definitions.

Categories and Types of Funds

Accounting and financial reporting for local educational agencies (LEAs) focuses initially on funds, which are designed to enhance and demonstrate fiscal accountability. The following table shows the three categories of funds used in LEA accounting, the ten types of funds within those three categories, and the measurement focus and basis of accounting used in each.

Fund Category	Fund Type	Measurement Focus	Basis of Accounting
Governmental Funds	General Fund Special Revenue Fund Capital Project Fund Debt Service Fund Permanent Fund	Current Financial Resources	Modified Accrual
Proprietary Funds	Enterprise Fund Internal Service Fund	Economic Resources	Accrual
Fiduciary Funds	Pension (and other employee benefit) Trust Fund Private-Purpose Trust Fund Agency Fund	Economic Resources	Accrual

LEAs may establish and maintain only those funds authorized by the *California School Accounting Manual*. An LEA may maintain more than one of any type of fund except for the General Fund. However, since unnecessary funds result in undue complexity and inefficient financial administration, LEAs should use only the minimum number of funds required by law, sound financial administration, and operating requirements.

Measurement Focus

Measurement focus describes the types of transactions and events that are reported in a fund's operating statement.

Accounting in governmental funds focuses on increases and decreases in *current financial* resources. It emphasizes near-term inflows and outflows of spendable resources, consistent with the focus of the annual operating budget. The operating statement of a governmental fund, therefore, includes transactions and events that affect the fund's current financial resources, even though these transactions and events may have no effect on net assets. Such transactions include the issuance of debt, debt service payments, and capital outlay.

Accounting in proprietary funds focuses on increases and decreases in *economic* resources, much like accounting in private-sector businesses. It emphasizes the long-term effects of operations on the fund's overall resources, i.e., its total assets and total liabilities. The operating statement of a proprietary fund includes only transactions and events that increase or decrease the fund's net assets. The operating statement therefore does not include the issuance of debt, debt service payments, and capital outlay, because these do not increase or decrease net assets. Changes to these accounts are, however, reflected in the proprietary fund's balance sheet.

Basis of Accounting

Basis of Accounting describes the timing of when transactions and events are recognized in the accounting records and reported in the financial statements.

Cash Basis: Revenues are recorded when cash is received, and expenditures (or expenses) are recorded when cash is disbursed. LEAs never use the cash basis of accounting.

Modified Accrual Basis: Revenues are recognized in the period when they become available and measurable, and expenditures are recognized when a liability is incurred, regardless of when the receipt or payment of cash takes place. LEAs use the modified accrual basis in governmental funds.

With respect to revenue, the term *available* means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. Generally, *available* is defined as collectible within 45, 60, or 90 days. So as not to distort normal revenue patterns, with specific respect to grants and state apportionments, the California Department of Education has defined *available* as collectible within one year. Please see the discussion of revenue recognition for specific revenue sources in Procedure 302.

With respect to expenditures, an exception is unmatured interest on general long-term debt, which is recorded when it is due.

Accrual Basis: Revenues are recorded when earned, and expenditures (or expenses) are recorded when a liability is incurred, regardless of when the receipt or payment of cash takes place. LEAs use the accrual basis in proprietary and fiduciary funds.

